



STATE OF WASHINGTON
OFFICE OF FINANCIAL MANAGEMENT

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April 4, 2019

Honorable Christine Rolfes, Chair
Honorable John Braun, Ranking Member
Senate Ways and Means Committee
P.O. Box 40482
Olympia, WA 98504-0482

Dear Senator Rolfes and Senator Braun:

I commend you for your efforts on the 2019 supplemental and 2019-21 operating budgets. I am writing to share observations and concerns with the Senate operating budget as amended in committee.

Primary concerns include funding levels for the Trueblood settlement agreement and long-term civil commitments. We also are concerned with conditions, staffing and capacity at state residential habilitation centers, and funding levels to help address homelessness.

The Senate budget includes overly aggressive budget savings assumptions and use of alternative forecasts related to health care and other services, and contains back-of-the-budget cuts to state agency programs and services.

State agencies are contacting you and your staff with a variety of policy and technical concerns. I appreciate your consideration of both their input and the following concerns as you work with your colleagues to enact final operating budgets this session.

Senate Ways and Means Committee 2019-21 Operating Budget

Health and Human Services

Department of Social and Health Services

Trueblood settlement agreement. While the Senate budget makes a significant investment toward funding the Trueblood settlement agreement, it should be fully funded. We request that the funding required to operate 50 additional forensic beds at Eastern State Hospital be funded at the staffing level provided in the Governor's budget to ensure the safety and security of all patients and staff.

Civil capacity transformation. The Senate budget reflects a strong commitment to improve the mental health system by funding new long-term inpatient civil capacity in the community. However, without additional funding for long-term inpatient civil capacity and alternative residential discharge placements in the community, individuals ready for discharge will remain on the discharge waitlist. Funding at the Governor's level of 485 enhanced discharge placement beds is needed to provide community placements for individuals ready for discharge.

Residential habilitation centers. The federal government requires a direct care staff to client ratio of 1:4 (42 CFR § 483.430 – Condition of participation: Facility staffing). Additional funding is needed to ensure that the department has the necessary resources to meet federal requirements on continuous,



aggressive active treatment in all intermediate care facilities and to ensure community residential capacity is available to serve clients with intellectual disabilities with the most appropriate level of services and supports.

Nursing home discharge savings. The Senate assumes a savings of \$29.4 million (total funds) as a result of aggressive nursing home discharges. This savings assumption is not achievable. Currently, the Aging and Long-Term Services Administration (ALTSA) is transitioning clients from institutional nursing home settings into community settings as fast as is appropriate for clients to do so. Adding additional staff will not facilitate faster transitions, making the savings assumption unachievable.

Removal of indirect staffing. The Senate budget assumes a policy savings by reducing staff and lease costs funded at maintenance level in the workload adjustment step. This policy reduction removes all oversight and support staff for case resource managers, creating an unsafe environment for staff and the clients we serve. Funding should be restored to ensure appropriate oversight and safety for staff and clients.

Health Care Authority

Savings assumptions. The Senate budget provides no funding to buy back savings assumed for the Heathier Washington initiative or the pharmacy savings assumed in the base budget. The assumed savings will not be achieved in the current biennium or in the next. The Senate budget assumes aggressive savings targets associated with additional program integrity staff. It also includes a reduction due to increasing the Managed Care withhold from 1.5 percent to 2 percent, an increase that actuaries have signaled would be difficult to certify in an actuarially certified rate, and assumes that none of the withhold will be earned back in this biennium or the next. Finally, the Senate budget includes general fund savings related to a delay in decreased Disproportionate Share Hospital payments, a delay that the federal government has not initiated. Collectively these assumptions set up a 2020 supplemental budget need that can be projected today to exceed \$200 million. Though the 2019-21 budget is challenging, legislators have worked hard to craft budgets that meet the primary needs of Washingtonians. The enacted budget should be sustainable through the entire 2019-21 biennium.

SEBB rate assumptions. The Senate budget includes funding for the new School Employees' Benefits Board (SEBB) program, but is based on rates much lower than the most recent actuarial rates for the program. The House budgeted rates are also lower than those provided, but the Health Care Authority actuaries consider the House rates to be reasonable. Under the rates assumed in the Senate budget, the SEBB program is almost certainly underfunded and will require supplemental funding from the 2020 Legislature.

Department of Children, Youth and Family Services

Child welfare workers. The Governor proposes funding an additional 106.9 staff to help lower caseload ratios for child welfare workers. High caseloads lead to longer stays in foster care, high turnover and burnout among social workers, and poor outcomes for children who are in out-of-home care. Additional funding will improve outcomes for children and will help to reduce turnover rates.

Early Childhood Intervention Prevention Services (ECLIPSE). The Senate budget assumes that \$1,076,000 in federal funds can be earned to support the ECLIPSE program. Use of federal Medicaid dollars to support this program was disallowed in 2014. We ask the Senate to fully fund the ECLIPSE program with state funds to avoid a known need in the 2020 supplemental budget.

Department of Services for the Blind

Vocational rehabilitation employment services. The Vocational Rehabilitation (VR) program provides essential services to individuals experiencing visual disabilities and enables them to participate fully in

the community and reach their employment goals. Without full funding for VR employment services, waitlists will grow to over a year for approximately 300 individuals during the 2019-21 biennium. The department also will not be able to meet federal maintenance of effort requirements and will be assessed a penalty, resulting in a future federal funding reduction.

Department of Corrections

IT architecture and portfolio management. DOC received none of the \$1,206,000 proposed by the Governor to implement a Gartner assessment recommendation and begin developing a technical strategy and roadmap to ensure that architectural governance and compliance moves forward. This is a concern because a lack of functionality in the Offender Management Network Information (OMNI) system has repeatedly led to sentencing miscalculations, most recently with the tolling of Drug Offender Sentencing Alternatives (DOSAs) sentences.

Direct patient care: DVC adjustment. The Senate funds only 68 percent of the total medically necessary direct patient care costs, leaving a \$1,870,000 shortfall to pay for these non-discretionary expenses. These costs continue to increase due to the changing health care needs of the DOC incarcerated population, as well as general cost increases of outpatient and specialty care. Funding should be provided to prevent the need for a supplemental budget adjustment in state fiscal year 2020.

General Government

Department of Commerce

Homelessness. In communities across Washington, the number of homeless individuals has grown by over 25 percent since 2013. The Governor's budget proposed \$97 million to help address this crisis; these proposed investments were strategically targeted toward housing the state's most vulnerable unsheltered homeless individuals and families through a mix of interventions including permanent supportive housing, temporary rent assistance and emergency shelter. The Governor's budget included funding to provide housing services to both unsheltered individuals and families, as well as resources to prevent new entries into homelessness. While the House and Senate budgets make significant capital investments to increase housing availability, the Senate provides less than 50 percent of the funding proposed by the House and less than 25 percent of funding proposed by the Governor.

Office of the Attorney General

Civil rights enforcement. The proposed House budget allows the Office of the Attorney General (AGO) to continue to enforce state and federal civil rights laws at current caseload levels, while the Senate budget includes no funding for the AGO Civil Rights Unit (CRU). Funding should be provided to both allow the AGO to continue current CRU casework and respond to the growing demand for new investigations, training and advice regarding discrimination.

Office of Financial Management

One Washington. The proposed level of Senate funding effectively suspends the program. At this level, OFM would work to keep the project on life support and not lose the value of prior work as it awaits future funding. This would likely delay the project by three years (adding to its total cost), assuming full funding were provided in the 2021-23 budget. This would extend the risk of failure of the state's legacy financial systems.

Natural Resources

Department of Fish and Wildlife

Hunting and fishing opportunities. We appreciate the Senate budget including \$18.5 million in general fund support to address the budget shortfall at the Department of Fish and Wildlife to help maintain basic

services for hunting and fishing. However, the budget leaves the department \$17.3 million short of funding necessary to sustain current levels of hunting and fishing opportunity and hatchery production. Senate Bill 5692 addresses this funding shortfall by increasing hunting and fishing license fees. Failure to pass the bill or provide other funding will result in substantial cuts to tribal, commercial, and recreational salmon fisheries; enforcement; recreational access to state and private lands; habitat protection; and hatchery production.

Orca Task Force support. The Governor's budget included \$300,000 in FY 2020 to support the second year of the Southern Resident Killer Whale Task Force. The task force identified 36 recommendations last year to address recovery of Southern Resident orcas, many of which the Senate included in its budget. Without this one-time funding, the task force will not be able to complete its work and provide a final report on recommendations and actions before the 2020 legislative session convenes.

State Parks

Maintaining state parks services. We appreciate the Senate budget providing \$10 million, including \$5 million of ongoing general fund state support, to maintain critical services at State Parks including customer service, facility maintenance and law enforcement. However, the Senate appropriated \$5 million of this support from the Parks and Renewal Support Account which is the agency's earned revenue account. The appropriation from this account will create a negative fund balance of \$3.3 million after factoring in increasing costs for central services and compensation and 2019 supplemental budget items. Providing \$10 million from the general fund will ensure no loss of services or reduction in staff.

Department of Ecology

NW regional office relocation to Dayton Avenue Building. The House and Senate transportation budgets underfund the Washington State Department of Transportation (WSDOT) furniture costs needed for WSDOT and the Department of Ecology to co-locate at a WSDOT building in Shoreline by the beginning of the 2021-23 biennium. This has unintended consequences of preventing WSDOT from shrinking its footprint small enough for Ecology's northwest regional office to move in as a tenant. If Ecology cannot move into the Dayton Avenue building, it will be forced to seek higher-cost, leased space in the King County real estate market. In addition, the Senate operating budget underfunds by \$1.9 million Ecology's one-time costs to move to Shoreline by the end of FY 2021. Full funding of \$4.6 million is needed to ensure a successful and timely relocation.

Washington State University/Department of Agriculture

Soil health initiative. The Governor's budget included \$3.6 million in general fund support to launch a soil health initiative at Washington State University in cooperation with the Washington Department of Agriculture. The Senate budget includes \$500,000 to WSU which falls short of launching this new initiative. This initiative would identify farming practices to improve soil health and increase crop yields, improve food nutrients, enhance carbon sequestration and improve water quality.

K-12 Education

Office of the Superintendent of Public Instruction

Levy equalization. The Governor proposed important increases in local voter-approved levy authority and corresponding increases in state levy equalization. While the Senate levy policy is not yet clear, the Senate budget contains no increase in levy equalization. Without some increase in levy equalization, the Legislature is likely to face a difficult challenge in addressing local levy authority increases needed to avoid potential district cuts to local school programs.

Student support staff. The Senate budget provides meaningful funding increases for special education programs for Washington students, helping districts to better address the changing needs of this student population. It does not, however, provide local districts with the resources necessary to meet the increasing behavioral and mental health needs of the student population as a whole.

The Governor proposed increased funding for school social workers, nurses, psychologists, and guidance counselors to support the mental health and well-being of students statewide. Without increased funding to districts for targeted staffing increases, local schools will continue to stretch the capacity of their existing staff as the daily care needs of the student population are not being met.

School employees' benefit eligibility change. Section 994 amends RCW 28A.400.350 to delay eligibility for non-represented employees of educational service districts from December 31, 2019 to June 30, 2021. This delay of benefits eligibility is a substantive change in law that denies these employees the right to health care benefits that currently exist in law. Substantive changes that affect benefit eligibility are not appropriate for a budget bill and should be made in a separate policy bill.

Higher Education and Workforce

University of Washington

UW medical/dental access and teaching mission. The Senate budget lacks funding to maintain access to medical care for uninsured individuals and those covered by Medicaid, and to promote the teaching mission and access to services at Harborview Medical Center, University of Washington Medical Center, and University of Washington Dental School.

Washington State University

Renewable Energy System Incentive program. Without requested funds, the Washington State University Energy Program will not be able to administer the Renewable Energy System Incentive program, affecting more than 22,000 program participants and \$110 million in tax incentives. Both the House and Governor proposed \$1.4 million to support this program's continued operation.

Foundational Support

Operating costs for colleges have outpaced the incremental growth in tuition revenue. Both the House and Governor's budget fund the gap between tuition revenue and compensation/central service cost increases, which is key to maintaining affordability and quality of course offerings, instruction and student supports. The Senate budget should adopt the same method as the Governor and House proposals.

Career Connected Learning

The Governor's budget invested \$75 million to create a statewide system of career connected learning. This would ensure that students across the state have equitable access to multiple pathways to a credential and career. The \$15.7 million level proposed by the House ramps in major program elements, including regional network grants and career launch programs. The Senate proposal only funds \$2.5 million and lacks major elements of the program (grants to create new program and new student enrollments). The compromise budget should provide sufficient funding to build statewide career connected learning opportunities.

Efficiency Reductions in State Agency Budgets

Finally, the Senate budget contains \$119 million in state agency cuts in Section 734 that will impact programs and services to Washingtonians. These back-of-the-budget reductions are disappointing in the Senate proposal.

Senate Ways and Means 2019 Supplemental Budget

Department of Natural Resources

Wildfire suppression. Additional funding is needed to cover the costs of wildfire suppression activities incurred and anticipated to occur in the spring of 2019. In March alone, there were 50 wildfires, 49 of which were in western Washington. Suppression costs are expected to be in excess of the Department of Natural Resources' base level of fire suppression appropriation. At this point, it appears the state will need an additional \$12 million GF-State to address anticipated costs. We will continue to work with your staff and agencies to refine this estimate in the weeks ahead.

Department of Veterans Affairs

Veterans home revenue shortfall. The February forecast update was not used to fund services to veterans at state veterans homes. This forecast captures updated capacity and census mix, and actual federal per diem changes came in lower than anticipated. To maintain current service levels, an additional \$1.75 million GF-State is needed. Without the additional appropriation, it will be necessary to close beds currently occupied by veterans and to reduce staff.

Department of Children, Youth and Families

Increase behavioral rehabilitative services rates. The Governor proposes fully funding the behavioral rehabilitative rate increase at \$4.4 million GF-State. The department implemented a rate enhancement designed to stabilize and increase the number of behavioral rehabilitative service providers and to encourage providers to become accredited, and thus, eligible for Title IV-E federal funding. A stable provider network is imperative for adequate access to needed services for children removed from their homes. The Senate budget does not fully fund this rate increase in the supplemental budget. Without funding, the department will be required to terminate the rate increase. Lower rates may result in more children placed out of state.

Health Care Authority

Medicaid Fraud Penalty Account. This account does not have the fund balance necessary to support the assumed level of expenditures in the proposed 2019-21 budget. Without an appropriate fund balance, the authority would be required to use state funds to cover the shortfall, resulting in a potential GF-State overexpenditure in state fiscal year 2019. Funding of \$9.3 million GF-State is required for the agency to close out the state fiscal year.

Thank you for your consideration.

Sincerely,



David Schumacher
Director

cc: Charlie Gavigan, Staff Coordinator, House Appropriations Committee
Michael Bezanson, Staff Coordinator, Senate Ways and Means Committee
Jim Crawford, Assistant Director for Budget, OFM
David Postman, Chief of Staff, Office of the Governor